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MEMORANDUM

TO: Mayor and Council Members

CC: Spencer Cronk, City Manager

FROM: Jackie A. Sargent, General Manager

DATE: September 24, 2021

SUBJECT: Adjustment in Austin Energy's Power Supply Adjustment Rate and other pass-through charges for Fiscal Year 2022

The purpose of this memo is to update the City Council on upcoming adjustments to Austin Energy pass-through charges: the Power Supply Adjustment (PSA), Regulatory Charge, and Community Benefit Charge (CBC). Adjustments to these charges occur regularly to reflect actual costs. The FY 2022 pass-through rates will come before City Council for consideration at its September 30 meeting.

Starting on November 1, Austin Energy customers will see a 6.5% decrease in the PSA charge on their utility bills. The PSA is the largest pass-through component of the bill, and the adjustment is due to the power supply generation revenues earned during the Winter event of February 2021. In addition to the PSA decrease, the Regulatory Charge will increase by 19.5% due to actual charges associated with the use of the ERCOT transmission system and costs assessed by various regulatory bodies. There is no change in the CBC.

The net result of these changes to the PSA and Regulatory Charge will be a very small overall reduction, with no material impact to average residential customer bills. Impacts to commercial and industrial customers will vary depending on consumption patterns but are not expected to result in material changes.

I. Power Supply Adjustment

Policy

The PSA tariff requires that the rate be determined as part of the City of Austin's annual budgeting process, including a public hearing. The tariff also provides that the PSA rate may be adjusted during the year to eliminate any over- or under-recovery. To enact a PSA adjustment, the City Manager must publicly present a report to the City Council that provides the underlying calculations for the PSA, both pre- and post-adjustment, by customer class, within 30 days of any adjustment of the PSA.

In compliance with the adopted tariff, this memorandum serves as the City Manager's public report to the City Council. Public notice of the PSA adjustment is provided through the City's Communications and Public Information Office.

Background

The PSA is a dollar-for-dollar cost pass-through to electric utility customers for the recovery and crediting of ERCOT settlements, fuel costs, and net purchased power agreement costs, with an adjustment for the over- or under-recovery balance for the period preceding the adjustment of the PSA. The general fund transfer does not apply to power supply revenues.

Effective with November 2021 electric bills, the PSA on residential bills will decrease from the current 3.078 cents to 2.877 cents per kilowatt-hour (kWh), which represents a 6.5% decrease. The PSA component of an average residential customer bill of 860 kWh per month will decrease by \$1.73 per month. Austin Energy's residential and commercial Business Cents and Energizer customers who subscribe to GreenChoice® will also see a decrease.

The PSA charge for Fiscal Year 2022 will provide a significant benefit to our customers related to the extraordinary market conditions during the ERCOT grid emergency of February 2021. During the energy emergency, Austin Energy's generation fleet provided critical power and reserves to the ERCOT electric market, earning an unusual amount of power supply revenue. Because the PSA recovers net *expenses* for customers' power supply, this earned *revenue* offsets some of the need to recover PSA costs, and thus contributes to an over-recovery. The conditions during the Event have contributed to a \$51 million forecast for the received over-recovery of the PSA charge as of September 30, 2021. In addition, Austin Energy has not been paid by ERCOT for an additional estimated \$32 million in power supply revenues due to short-pays and bankruptcy of market participants. As that cash is realized in the future, it will be accounted for in the PSA to ensure our customers receive the full benefit of our generation fleet's performance.

Underlying Calculations for the PSA

Austin Energy utilizes a standardized formula to develop the PSA average system rate, as shown below:

$$\left(\frac{(\text{Over}) \text{ or Under Recovery}}{\text{Normalized GWh Forecast}} \right) + \left(\frac{\text{Historical Costs}}{\text{Historical GWh}} \right)$$

Historical costs and load (GWh or kWh) and the over recovery amount may be adjusted to reflect known and measurable changes to account for one-time events, abnormal weather, abnormal operating conditions, or other events not reflected or improperly reflected in the historical numbers. The current PSA average system rate, developed during the FY 2021 annual budget process, utilized adjusted historical costs and an under-recovery balance as of July 31, 2020, a forecast of net costs for August 1 through October 31, 2020, and a normalized load forecast for the period of November 1, 2020 through October 31, 2021. The result was an average system rate of 3.063 cents per kWh, calculated as shown below (in millions of dollars and GWh):

$$\left(\frac{\$1.4\text{M}}{12,630 \text{ GWh}} \right) + \left(\frac{\$386.7\text{M}}{12,670 \text{ GWh}} \right)$$

The proposed 2022 PSA average system rate utilizes adjusted historical costs as of August 31, 2021, the forecast over-recovery amount as of September 30, 2021, and a normalized load forecast for the period of November 1, 2022 through October 31, 2023. The result is an average system rate of 2.862 cents per kWh, calculated as shown below (in millions of dollars and GWh):

$$\left(\frac{-\$51.0\text{M}}{12,038 \text{ GWh}} \right) + \left(\frac{\$401.9\text{M}}{12,230 \text{ GWh}} \right)$$

Adjustment for Customer Classes

Austin Energy adjusts the average system rates based upon the level of voltage in which the customer receives electricity. Customers served at primary and transmission level voltage install and maintain their own transformer(s) and related equipment, at their site, as needed to step down the voltage before the power enters their facility. Electricity delivered at higher voltages results in lower line losses between the point of generation and delivery to the customer. As a result, primary and transmission customers pay a slightly lower PSA charge. Residential and most business customers receive secondary service. All customers will receive a 6.5% decrease in their PSA rate. The total impact of this decrease on a customer's bill is dependent upon their voltage level, consumption, and usage pattern.

The following table indicates the PSA rates per kWh by voltage level on bills beginning November 1, 2021.

Voltage Level	Adjustment Factor	Power Supply Rate (\$/kWh)
<i>System Average</i>	1.0000	\$0.02862
<i>Secondary</i>	1.0049	\$0.02877
<i>Primary</i>	0.9821	\$0.02811
<i>Transmission</i>	0.9696	\$0.02775

II. Other Pass-Through Adjustments

In addition to the PSA, the Regulatory Charge and Community Benefit Charge are reviewed annually and adjusted as needed to recover their respective costs and prior period over or under recovery. All pass-throughs are accounted for under Governmental Accounting Standards Board (GASB) 62: Regulated Operations, which requires that rates set at levels that will recover costs can be charged and collected from customers.

Regulatory Charge

The Regulatory Charge recovers the following costs: 1) Electric Reliability Council of Texas (ERCOT) transmission service charges and credits; 2) North American Electric Reliability Corporation (NERC) and Texas Reliability Entity, Inc. (Texas RE) regulatory fees and penalties; 3) ERCOT administrative fees; and 4) other material regulatory fees or penalties specific to the electric industry.

In November 2019 (FY2020), the Regulatory Charge was intentionally set below cost to pass back a prior period over-recovery. In response to the pandemic, Austin Energy provided additional interim bill relief by further reducing the Regulatory Charge by 32% beginning in April 2020, accelerating the refund of the over-recovery. While the lower Regulatory Charges provided the intended relief to our customers, those interim rates are inadequate going forward to recover current and future wholesale transmission costs.

In November 2020 (FY2021), the Regulatory Charge was increased 19% to produce an estimated \$16 million in additional regulatory revenue. Despite the increase, the new rates did not provide for full cost recovery for the year. In Docket No. 51612, the Public Utility Commission of Texas (PUCT) raised the ERCOT wide postage stamp rate from \$54.28/kW to \$58.39 kW. The postage stamp rate is assessed to each utility based on their contribution to the ERCOT average four coincident peak (4CP). This change in the postage stamp rate raised ERCOT transmission service costs for all load serving entities in ERCOT, including Austin Energy. Austin Energy's overall net regulatory costs increased by \$9 million in FY2021.

The current Regulatory Charge is under-recovering by approximately \$35 million a year and has resulted in an estimated under-recovery of approximately \$30 million by the end of this fiscal year. To mitigate the under-recovery, the Regulatory Charge will increase in November 2021 (FY2022) by 19.5% from its current rate and is expected to raise an additional \$20 million in regulatory revenue. This increase is phase 1 of a three-year funding plan that is projected to increase the Regulatory Charge by 25% each year in FY2023 and FY2024.

Community Benefit Charge

The Community Benefit Charge (CBC) recovers certain costs incurred by the utility on behalf of Austin Energy's service area customers and the greater community and includes three specific programs and services provided to customers. The CBC charge will not change in FY2022.

1. Service Area Lighting (SAL) recovers the cost of City of Austin street lighting, the operation of traffic signals located inside Austin Energy's service territory, and certain lights owned by the City of Austin and operated on behalf of the City's Parks and Recreation Department. Customers outside the city limits of Austin are not subject to this component of the CBC.
2. Energy Efficiency Services (EES) recovers the cost of energy efficiency rebates and related costs, solar incentives, and the Green Building program offered by Austin Energy throughout its service area.
3. The Customer Assistance Program (CAP) funds projects that help qualifying low-income and other disadvantaged residential customers through bill discounts, payment assistance (Plus 1), arrearage management (available only for customers receiving the CAP discount), and weatherization services.

III. Conclusion

The changes to the PSA and Regulatory Charge will be effective November 1, 2021. The net change from these adjustments will have no material effect on residential customers' overall bills. Impacts to commercial and industrial customers will vary depending on consumption patterns but are not expected to result in material changes.

If you have any questions, please contact me or Mark Dombroski, Austin Energy's Deputy General Manager, Chief Financial and Administrative Officer.

xc: Ed Van Eenoo, Chief Financial Officer, City of Austin